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BEXP, VM  
SUBJECT: VIETNAM'S FIRST OIL REFINERY TAKES SHAPE IN QUANG NGAI  
PROVINCE

REF: (A) Hanoi 1817 (B) Hanoi 1838

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¶1. (U) Summary: On November 29, members of the Embassy's Economic Section traveled to Central Vietnam's Quang Ngai Province to meet with government officials and tour the site of what will be Vietnam's first petroleum refinery, located in the nearby Dung Quat Economic Zone. Quang Ngai Province is largely rural with an agrarian economy. Officials estimate that 30 percent of the province's urban population lives in poverty, increasing to 50 percent of those who live in the province's western mountainous districts. Recent major floods killed 32 people, submerged tens of thousands of homes and businesses, and caused major damage to local infrastructure and crops. Officials asked the Embassy for help to promote the province to American companies that seek to establish light industrial concerns in Vietnam and to find official development assistance (ODA) to build a water reservoir for residents on the nearby island of Ly Son. End Summary.

¶2. (U) This is the third in a series of reports (Reftels) on trips by Embassy and Consulate General personnel to understand better the level of economic development and competitiveness in provinces throughout Vietnam. On November 29, members of the Embassy's Economic Section traveled to Quang Ngai Province to meet with provincial officials and tour the Dung Quat Economic Zone and refinery.

THE CENTER PLAYS CATCH-UP  
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¶3. (U) Despite a burgeoning population of 1.3 million people in greater Quang Ngai City, Quang Ngai Province is largely rural with an agrarian economy. With twelve districts spread over mountainous terrain, coastal plain, and the nearby island of Ly Son, provincial officials face significant logistical challenges in providing services to its far-flung constituents. (Note: Quang Ngai Province moved up eleven spots, to number 48, in the 2007 Vietnam Provincial Competitiveness Index, but still lags near the bottom of the 64-member provincial pack. End Note).

¶4. (SBU) In a relaxed and open discussion with provincial officials, Truong Quang Tuong, Quang Ngai's Director of Foreign Affairs, estimated that 30 percent of the people in Quang Ngai Province live in poverty (defined as less than USD 14 per month), increasing to 50 percent of those who live in the province's western mountainous districts (Note: Vietnam's national poverty rate in 2006 was 16 percent. End note). He said that 47,000 people have disabilities and claimed that as many as 17,000 people are afflicted with symptoms of dioxine poisoning (Agent Orange). Moreover, he said the

province is beset by floods, drought, or typhoons nearly every year. Recent major floods in the area killed 32 people, submerged tens of thousands of homes and businesses, caused major damage to roads, railways and bridges, and destroyed thousands of hectares of crops. Director Tuong estimated flood damage at VND 150 billion (approximately USD 10 million). He asked the Embassy to help promote the province to American companies that seek to establish light industrial concerns in Vietnam and to find official development assistance (ODA) to build a reservoir on the island of Ly Son to provide clean drinking water to the several thousand people who live there.

In the Zone  
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15. (SBU) The Dung Quat Economic Zone stands as the centerpiece of the Vietnamese government's efforts to stimulate economic development in central Vietnam and help the region catch up with the stellar growth of the country's north and south. According to local officials, the zone is currently home to 102 industrial concerns with a total capital of USD 5.7 billion. A few of the major projects currently under development include state-run Vinashin's ship building and repair facility, a Taiwanese-owned steel plant with a capacity of 100,000 tons per year, the Korean-owned Doosan heavy industry equipment factory, and polypropylene and carbon black manufacturing facilities.

16. (SBU) The nucleus of the economic zone is the sprawling Dung Quat Petrochemical Refinery Complex, where approximately 18,000 workers are currently laboring to build Vietnam's first oil refinery and what will eventually be central Vietnam's largest deepwater seaport - overtaking Da Nang Port to the north. State-owned PetroVietnam is financing the entire project after foreign investors, including Russia's Zarubezhneft, withdrew from the venture due to concerns over the refinery's location, far from the oil fields of southern Vietnam. A consortium of foreign companies, including Spain's Tecnicas Reunidas and Japan's JGC Corporation, is working to

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complete the refinery, which includes a nearby tank farm and marine loading terminal, in time for the scheduled February 2009 opening. The facility will have an annual processing capacity of 6.5 million tons of crude oil, or 130,000 barrels per day.

17. (U) Although crude oil is Vietnam's number one export, the country presently imports all of its refined petroleum products due to a lack of refining capacity. The Dung Quat Complex is the first of five planned refineries in Vietnam. The Nghi Son Refinery and Petrochemical Complex in northern Vietnam's Thanh Hoa Province is scheduled to open in 2011 with an annual processing capacity of seven million tons of crude oil. The third complex, in southern Vietnam's Baria-Vung Tau Province, is scheduled to open in 2013. The GVN also plans to open a 100 percent foreign invested refinery near the seaport of Vung Ro in southern Phu Yen Province, and a joint-venture refinery in Can Tho Province in the Mekong Delta.

MICHALAK